FINANCIAL REPORTING PRACTICES OF MICROFINANCE INSTITUTIONS OF INDIA IN CHANGING SCENARIO

A

Synopsis

Submitted for registration of

Degree of Doctor of Philosophy

In Accountancy & Law

(Commerce)

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August 2012

INTRODUCTION

Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services. More broadly, it is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers." Those who promote microfinance generally believe that such access will help poor people out of poverty.

A type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services. Ultimately, the goal of microfinance is to give low income people an opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance.

Micro financing is not a new concept. Small micro credit operations have existed since the mid 1700s. Although most modern microfinance institutions operate in developing countries, the rate of payment default for loans is surprisingly low - more than 90% of loans are repaid. Like conventional banking operations, microfinance institutions must charge their lenders interests on loans. While these interest rates are generally lower than those offered by normal banks, some opponents of this concept condemn microfinance operations for making profits off of the poor.

The World Bank estimates that there are more than 500 million people who have directly or indirectly benefited from microfinance-related operations.

The proposed Microfinance Services Regulation bill defines microfinance services as “providing financial assistance to an individual or an eligible client, either directly or through mechanism for:

- An amount, not exceeding rupees fifty thousand in aggregate per individual , for small and tiny enterprise , agriculture , allied activities (including for consumption purpose of such individual) or

- An amount not exceeding rupees one lakh fifty thousand in aggregate per individual for housing purpose, or
- Such other amount, for any of the purposes mentioned at items (1) and (2) above or other purposes, as may be prescribed"

In India task force on supportive policy and regulatory framework for Micro-finance has defined Micro finance as the "provision of thrift, credit and other financial services and products of very small amounts to poor in rural, semi urban or urban areas for enabling them to raise their income levels and improve living standard" while exclusively covering the poor, it lays emphasis on graduating borrowers from the pre- mE stage to post-mE stage. This graduation is done through the support of financial and non-financial services.

Microfinance institution

A Microfinance Institution (MFI) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank clients.

A microfinance institution is an organization that offers financial services to low income populations. Almost all give loans to their members, and many offer insurance, deposit and other services.

A great scale of organizations is regarded as microfinance institutes. They are those that offer credits and other financial services to the representatives of poor strata of population (except for extremely poor strata).

Various types of institutions offer microfinance: credit unions, commercial banks, NGOs (Non-governmental Organizations), cooperatives, and sectors of government banks. The emergence of "for-profit" MFIs is growing. In India, these 'for-profit' MFIs are referred to as Non-Banking Financial Companies (NBFC). NGOs mainly work in remote rural areas thereby providing financial services to the persons with no access to banking services.

The proposed Regulation further defines an MFI as “an organization or association of individual including the following if it is established for the purpose of carring on the business of extending microfinance services:

- A society registered under the Society Registration Act , 1860,
- A trust created under the Indian Trust Act, 1880 or public trust registered under any state enactment governing trust or public, religious or charitable purposes,
- A cooperative society/ mutual benefit society / mutually aided society registered under any state enactment relating to such society or any multistate cooperative society registered under Multi State Cooperative Society Act , 2002 but not including:
- A cooperative bank as defined in clause (cci)of section 5 of Banking Regulation Act, 1949 or
- A cooperative society engaged in agriculture operations or industrial activity or purchase or sale of any goods and services”

FINANCIAL REPORTING

According to the Financial Accounting Standards Board, financial reporting includes not only financial statements but also other means of communicating financial information about an enterprise to its external users. Financial statements provide information useful in investment and credit decisions and in assessing cash flow prospects. They provide information about an enterprise's resources, claims to those resources, and changes in the resources.

Financial reporting is a broad concept encompassing financial statements, notes to financial statements and parenthetical disclosures, supplementary information (such as changing prices), and other means of financial reporting (such as management discussions and analysis, and letters to stockholders). Financial reporting is but one source of information needed by those who make economic decisions about business enterprises.

The primary focus of financial reporting is information about earnings and its components. Information about earnings based on accrual accounting usually provides a better indication of an enterprise's present and continuing ability to generate positive cash flows than that provided by cash receipts and payments.

SIGNIFICANCE OF FINANCIAL REPORTING

A business without financial reporting is the equivalent of a rowboat heading upstream without any paddles, not likely to move forward, and most likely to go backward.

Financial reporting refers to the periodic production of business financial statements. The basic financial statements of an enterprise include the 1) balance sheet (or statement of financial position), 2) income statement, 3) cash flow statement, and 4) statement of changes in owners' equity or stockholders' equity. Without accurate financial reporting, Management would have no idea of how profitable, how leveraged, how liquid, nor how efficient their business is. They could not determine if their business could weather another economic recession like the one we are still experiencing, whether they are growing their business and doing so profitably, or if they have the capacity to meet all current obligations for payroll, utilities, and loan obligations, without running out of cash. Accurate financial reporting is also one way a small business owner

can have a control mechanism by which any irregularities (expense abuses, pricing issues, etc) in the financial performance of the company can be brought to the forefront.

Finance is one of the crucial aspects of any business. Proper operations of any business are linked with timely and precise financial reporting, which ensures accurate business strategies, and faster decision-making. Financial position of a business is subject to constant changes, so financial reporting is helpful to get the right financial picture of your business at a given point of time and efficient financial reporting assists in flawless profit planning, which is necessary to ensure profitability of an enterprise.

Financial reporting to board members is also an important business activity because it helps corporate directors (board members) understand significant factors that affect a company's industry, business performance and operating activities. A board of directors is a corporation's most senior group that makes major decisions, appoints senior leaders and selects corporate external auditors.

REVIEW OF LITERATURE

The literature review is important because It describes how the proposed research is related to prior research in statistics. It shows the originality and relevance of research problem. Specifically, your research is different from other statisticians. It justifies proposed methodology. It demonstrates preparedness to complete the research.

31 review of literature have been collected (from financial year 1996 to 2012) from journal and internet. Out of which 8 are national review of literature and 23 are international review of literature.

NATIONAL REVIEW OF LITERATURE

Neeti Sanan, Sangeeta Yadav (2012) Corporate Governance Reforms and Financial Disclosures: A Case of Indian Companies

The main objective of this study is to evaluate the impact of corporate governance reforms brought out by Securities and Exchange Board of India (SEBI), Clause 49 of the Listing Agreement (2006), on the level of financial disclosures of the Indian firms. The current research has been carried out with 30 Indian listed companies which form part of Bombay Stock Exchange (BSE) index for the pre-reform period (2001-02 to 2004-05) and post-reform period (2005-06 to 2008-09). A Corporate Governance Transparency and Disclosure Score (CGS) has been constructed for the sample companies based on the attributes drawn from the Standard and Poor's (S&P) Transparency and Disclosure Survey (2008). The study indicates that despite impressive corporate governance reforms, there is only a moderate level of financial disclosures by the Indian firms. It emphasizes a need for improved enforcement of legal and regulatory structures to enhance financial reporting quality

Prasun Kumar Das (2011) Towards Corporate Governance of Microfinance Institutions (MFIs) In India

The article notes that good governance in Micro Finance Institutions (MFIs) is important in defining the Role of CEOs/Board/Chairperson/Promoters to create/maintain a positive image in the society, which will attract and retain customers. The transparency of systems and procedures will promote sound decision making through well-documented policies, which will attract investment from commercial banks, Venture Capital funds and Private Equity Investors and

donors. . This article is aimed at all stakeholders of MFIs in India who focus on financial services (loans, deposits, insurance, etc.) and on non-financial services (empowerment, literacy, nutrition, health, environment etc.) and sets out to address the issues and impact of good governance for their growth and survival in the present market economy.

Savita Shankar, Mukul G. Asher (2010) Regulating Microfinance: A Suggested Framework

This paper proposes the creation of MFI banks which may be permitted to offer savings as well as mobile payment services, to be regulated by the country's central bank, the Reserve Bank of India (RBI). In addition, for non prudential supervision for the sector as a whole, an independent oversight board with representation from participants in the sector, the Government and consumer forums, reporting to the RBI is suggested.

Pankaj K Agarwal, S.K.Sinha (2010) Financial performance of Microfinance Institutions of India :A cross sectional study

The present study is an attempt to analyze the financial performance of various microfinance institutions operating in India. It assumes significance because it is imperative that these institutions be run efficiently given the fact that they are users of marginal and scarce capital and the intended beneficiaries are the marginalized sections of society. MFIs must be able to sustain themselves financially in order to continue pursuing their lofty objectives, through good financial performance.

Pankaj M. Madhani (2008) Corporate Disclosure: Concepts and Practices

The book is presented in three sections. The first section includes articles on role of voluntary disclosure, motives for disclosure and non - disclosure, new models for financial reporting, segmental disclosures and accounting standards AS 1 and AS 9. The second section contains articles on empirical study on accounting standards and disclosure practices, corporate disclosure and firm characteristics, factors influencing voluntary disclosure practices, voluntary reporting practices and environmental accounting disclosure. The third section discusses sectoral practices for corporate disclosures by studying ten sectors of economy viz. FMCG, IT, banking, capital goods, power, metal products, and pharmaceuticals, oil, automobile and telecommunications, disclosure practices in Indian software industry and non-mandatory disclosure practices of banking companies in India.

Kamran Ahmed, Muhammad Jahangir Ali (2006) The Legal and Institutional Framework for Corporate Financial Reporting Practices in South Asia

The purpose of this paper is to examine the legal and institutional environment for corporate financial reporting practices in three South Asian countries of the South Asian Association for Regional Cooperation (SAARC), namely Bangladesh, India and Pakistan. The paper concludes that the prevailing similarities in political, legal, economic, business ownership, accounting profession, culture and institutional structures in the three countries should have facilitated regional accounting harmonization. However, the accounting professional bodies within each country have adopted IASs as the basis of national accounting standards, mostly driven external investments need and the policies pursued the governments in recent years within the region. Since the South Asian countries are important in the context of global capital markets, this paper will help future researchers and regulatory bodies to understand more clearly the comparative current accounting and reporting regulations within the region.

Prof Amitabh Joshi (2006) Disclosure Practices in Corporate Reporting of Public Sector Financial Institutions (PSFs)

This literature examine how different characteristics of organization affects disclosure pattern The aim of accounting is to communicate economic message on the result of business decision to the users from time to time. Thus corporate reporting is total communication system between a company and users. This is the most direct least expensive, most timely and faired methods of reaching all shareholders and other, present and potential users. Financial reporting includes not only financial statements but also other means of communicating information that relates, directly or indirectly to the information provided by the accounting system. Corporate annual reports (CAR) are the subject of research emanating from different disciplines. A growing body of literature addresses their purpose, design, content and interpretation, as well as reasons for their changing content..

Yousuf Kamal , Nazim Uddin Bhuiyan (2003) Standardization of Accounting and Financial Reporting Practices in the Banking Sector in Bangladesh:

This study focuses on necessity of standardization in financial reporting practices worldwide. The pattern of financial reporting varies in the different countries or regions following different pattern of accounting and financial reporting of the European colonial powers of 15th to 20th

century in Asia, Africa and Latin American countries. This variation stands in the way of sound comparability of financial reporting among different countries. Therefore, the necessity of standardization was felt worldwide. For standardization and harmonization of accounting and financial reporting, International Accounting Standard Committee (IASC) has developed a number of 'International Accounting Standards' (IASs) relevant to different aspects of accounting and reporting. Hence, the implementation of the IAS # 30 in our banking sector deserves evaluation and appraisal. The study was pursued by selecting some banks from the private sector. The study reveals that the banks follow the IAS partially. For full compliance, proper training and monitoring are necessary

INTERNATIONAL REVIEW OF LITERATURE

Fincy Pellisserry (2012) Disclosure of Financial Information and Corporate Governance

This paper examines Financial accounting information that is the product of corporate accounting and external reporting systems that measure and routinely disclose audited, quantitative data concerning the financial position and performance of the publicly held firms. The disclosure has been a most efficient and effective mechanism for inducing managers to manage better. It promotes a fair and efficient capital market. It is the assumption behind many disclosure requirements that behavior can be influenced merely by requiring it to be disclosed. The information disclosed enables the shareholders, investors, creditors and other persons who are interested in the affairs of the company to have better understanding of the affairs of the company. The Company's Act, 1956, requires the disclosure in balance sheet, auditor's report, director's report and the reports to registrar of companies and the Securities and Exchange Board of India (SEBI). Enhanced disclosure is adopted so as to give better control of corporations. The contents of financial reports and the statement attaching to it, strives to achieve greater corporate transparency.

Costello, Anna M. Wittenberg-Moerman, Regina (2011) Auhe Impact of Financial Reporting Quality on Debt Contracting: Evidence from Internal Control Weakness Reports.

We examine the effect of financial reporting quality on the trade-off between monitoring mechanisms used by lenders. We rely on Sarbanes-Oxley internal control reports to measure

financial reporting quality. We find that when a firm experiences a material internal control weakness, lenders decrease their use of financial covenants and financial-ratio-based performance pricing provisions and substitute them with alternatives, such as price and security protections and credit-rating-based performance pricing provisions. We also find that changes in debt contract design following internal control weaknesses are substantially different from those following restatements, where lenders impose tighter monitoring on managers' actions, but do not decrease their use of financial statement numbers.

Zohra Bi; Shyam Lal Dev Pandey (2011) comparison of performance of Microfinance Institutions with commercial banks in India.

The aim of paper is to study the performance and efficiency of microfinance. A sample of microfinance institutions in India have been selected based on their ratings given by microfinance information exchange (MIX) for the study. The performance of these sample MFIs as well as their performance with respect to commercial banks in India have been studied using statistically tools. Data for the microfinance institutions have been collected from Microfinance Out of the 88 MFIs in India reported on MIX, 24 MFIs are taken as samples, these samples taken were five star rated by MIX. The financial parameters of these MFIs are studied and compared with the financial parameters of commercial banks and their financial performance can be analyzed. The various parameters taken for analyzing the financial performance of MFIs and banks include: Financial structure, Profitability and Efficiency.

Steven Salterio and Patrick Legresley (2010) Developing a Culture of Reporting Transparency and Accountability: The Lessons Learned from the Voluntary Sector Reporting Awards for Excellence in Financial Reporting Transparency

This paper examines the annual reports of over 70 different Canadian charities ranging in size from $250,000 to over ten million in revenue. Given these organizations self-select into the competition, if anything we are seeing reports of not-for-profits that think they are doing a good job of reporting. We find that the common theme for superior annual reports is the telling of a story that engages readers and gives them sound reasons for supporting a charity and its work. But this is not just a creative writing opportunity or an advertisement; it is an accountability document for an organization’s stakeholders that can be very much improved on as a comparison of the best practices we found across organizations shows. Hence, we discuss ten lessons that we learned in the VSRA competition about how to improve this important accountability document.

Noraini Mohd Nasir, Radiah Othman, Jamaliah Said, Erlane K Ghani (2009) Financial Reporting Practices of Charity Organizations: A Malaysian Evidence

Using content analysis and interview setting, this study examines the current state of financial reporting of charity organizations in Malaysia. Specifically, this study examines the major issues and problems faced by these organizations in preparing their financial reports. Annual reports of 32 charity organizations were reviewed and the results show that there is a varying degree of reporting practices among them. The results show that although all charity organizations submitted their balance sheets to the Registrar of Society, only 60% of these organizations presented a cash flow statement and only 59% had their financial reports audited by external auditors. Further investigations indicate that there are problems faced by these organizations in preparing the reports such as lack of skilled accounting staff and high staff turnover. The findings of this study provide some understanding to the relevant authorities and the organizations themselves to overcome the problems related to the non-submission of annual reports as required by the Registrar of Society.

Vincent J. Hooper, Richard Donald Morris (2009) Washington Consensus, Financial Reporting and Emerging Economies

The purpose of this paper is to examine the financial reporting issues facing emerging economies in the wake of financial liberalization reforms brought about by the World Bank's Washington Consensus policies. We argue that these reforms were not implemented in an appropriate manner leading to a disparity between the intended convergent objectives of financial liberalization and underlying divergent corporate governance and financial reporting practices. We examine the suitability of International Accounting Standards and US General Accepted Accounting Principles as a way forward for emerging economies. In addition, we extend a framework that maps financial reporting and corporate governance systems to economic development in order to highlight why convergence is not an appropriate mechanism for progress.

Fabrizio Ferri, Tatiana Sandino (2009) The Impact of Shareholder Activism on Financial Reporting and Compensation: The Case of Employee Stock Options Expensing

We examine the economic consequences of more than 150 shareholder proposals to expense employee stock options (ESO) submitted during the proxy seasons of 2003 and 2004, the first case in which the SEC allowed a shareholder vote on an accounting matter. Our results indicate

that these proposals affected accounting and compensation choices. Specifically, (i) targeted firms were more likely to adopt ESO expensing relative to a control sample of S&P 500 firms, (ii) among targeted firms, the likelihood of adoption increased in the degree of voting support for the proposal, and (iii) non-targeted firms were more likely to adopt ESO expensing when a peer firm was targeted. Additionally, (i) CEO pay decreased in firms in which the proposal was approved relative to a control sample of S&P 500 firms, and (ii) among targeted firms, approval of the proposal was associated with decreases in CEO compensation and the use of ESO in CEO pay. Our findings reveal an increasing influence of shareholder proposals on governance practices.

Prof. Emma & Bashir Babatunde Alao (2008) The ethos of operative accounting in financial reporting: the ohallenges of regulatory agencies in Nigeria

This paper explores the nature and incidence of creative accounting practices in corporate finandal reporting within the context of ethical considerations and the challenges faced by the Regulatory Authorities in Nigeria. Given corporate failures and frauds among Nigeria firms. The paper explores conceptual issues in creative accounting and the reasons that drive company directors to engage in creative accounting. Furthermore, the paper considers the various ways in which creative accounting can be undertaken and summarizes some empirical research on the nature and incidence of creative accounting. The ethical dimension of creative accounting is discussed, drawing evidence from several empirical studies.

Andreas Andrikopoulos, Nikolaos Diakidis (2007) Financial Reporting Practices on the Internet: The Case of Companies Listed in the Cyprus Stock Exchange

This paper studies reporting disclosure practices on the websites of companies listed in the Cyprus Stock Exchange. The first part of the paper produces and discusses descriptive evidence on internet reporting practices by listed companies with respect to the content of disclosed information and industry type. The second part of the paper undertakes an explanatory effort in order to identify the factors that determine internet reporting practices for listed firms in the Cyprus Stock Exchange. Financial reporting on the internet is not largely adopted for the firms listed in Cyprus Stock Exchange, as compared with international evidence in this area. Firm size has been shown to be the only significant explanatory variable for internet reporting practices.

Richard Price, Francisco Roman, Brian Rountree (2006) Governance **reforms ownership concentration and financial reporting transparency in Mexico**

We examine how financial reporting transparency and quality of Mexican firms vary with corporate governance. These results suggest improved governance characteristics may have led to improved financial reporting and transparency. We directly assess this by designating firms with greater compliance as better governed on an annual basis. The results indicate better governed firms do not exhibit statistically less earnings management behavior. Further, these same firms do not exhibit higher earnings persistence nor does the market place greater weights on the reported earnings relative to less well governed firms. We conclude greater compliance does not lead to improved financial reporting transparency or quality because of the concentrated founding family ownership structure predominant in Mexico. Further, improvements in corporate governance and financial reporting requirements are not likely to lead to corresponding improvements in transparency and reporting without adjusting the requirements to accommodate the ownership structure.

Performance and Transparency: A Survey Of Microfinance In South Asia (2006) Published by The World Bank, CGAP

This paper combines local knowledge of the sector with international industry reporting norms to explore the performance of South Asian microfinance and describe the factors that contribute to our understanding of that performance. Local microfinance experts collected data on microfinance institutions (MFIs) and surveyed the local transparency environment for six countries across the region: Afghanistan, Bangladesh, India, Nepal, Pakistan and Sri Lanka. In three of these cases, contributions drew on the work of national associations of microfinance institutions. This regional overview looks at MFI performance and transparency across the sector. Subsequent chapters survey the state of affairs in each country. The three country chapters on Pakistan, Nepal and India also highlight the work of the national networks and the challenges that they face in supporting transparency in their local environments.

Roy Mersland , R. Øystein Strøm (2007) Performance and corporate governance in microfinance institutions

We trace the relationship between firm performance and corporate governance in microfinance institutions (MFI) utilizing a self constructed global data set on MFIs, collected from third-party

rating agencies. We study the effect of board characteristics, ownership type, competition and regulation on the MFI's outreach to poor clients and its financial performance. The results show that split roles of CEO and chairman, a female CEO, and competition are important explanations. Larger board size decreases the average loan size while individual guaranteed loan increases it. No difference between nonprofit organizations and shareholder firms

Chun Jiang (2006) 'Optimism' Vs 'Big Bath' Accounting - A Regulatory Dilemma in Chinese Financial Reporting Practices

This paper examines financial reporting problems in China .Although China's accounting system has experienced an evolution during the last three decades, its financial reporting practices are still not satisfactory. Optimism, by means of overstating companies' profits and assets value, has always been criticized in China. Therefore, the principle of Conservatism may provide a means of minimizing such improper behavior. With such concern, the paper systematically reviews the financial reporting problems in China. However, through analysis, it is found that although Optimism exists, the extremely contrary case - Big Bath accounting also exists. Hence, this paper argues that Conservatism may not be applicable in contemporary China's financial reporting environment.

Claudio Borio and Kostas Tsatsaronis (2006)) Risk in financial reporting: status, challenges and suggested directions

This study focuses on risk in financial reporting .Advances in risk measurement technology have reshaped financial markets and the functioning of the financial system. More recently, they have been reshaping the prudential framework. Looking forward, they have the potential to reshape financial reporting too. Recent initiatives to improve financial reporting standards have brought to the fore significant differences in perspective between accounting standard setters and prudential authorities. Building on previous work, we argue that risk measurement and management technology can be instrumental in bridging this gap and, by the same token, in improving financial reporting. Risk measurement plays a crucial role in the measurement, verification and validation of valuations.

Kenneth Sullivan (2005) Transparency in Central Bank Financial Statement Disclosures

This paper, which updates WP/00/186, looks at the disclosure requirements for central banks under International Financial Reporting Standards and provides practical guidance for those responsible for preparing central bank financial statements. The IMF`s development of the Code of Good Practices on Transparency in Monetary and Financial Policies and the introduction of safeguards assessments have increased emphasis on transparency of the disclosures made in central bank financial statements.

Solomon Tadesse (2005) Banking Fragility and Disclosure: International Evidence

This study examines the impact of greater bank disclosure in mitigating the likelihood of systemic banking crisis. In a cross sectional study of banking systems across forty-nine countries in the nineties, it finds evidence that banking crises are less likely in countries with regulatory regimes that require extensive bank disclosure and stringent auditing.

Haroldene Wunder (2004) The Status of International Business and Financial Reporting Harmonization

This research describes the status of harmonization of international business and financial reporting. First, it identifies and addresses the issues that have historically represented obstacles to harmonization .Second, the research describes how multinational enterprises' (MNEs) need for access to international capital markets now dominates and propels the momentum toward international financial reporting standards, as demonstrated by the European Union's (EU)January 1, 2005, adoption of IASB standards. Finally, the research demonstrates that total convergence of international financial reporting standards is years away by describing the 100+ existing differences between IASB's international standards (IAS/IFRS) and U. S. generally accepted accounting principles (GAAP).

C. M. Anyanwu (2004) Microfinance Institutions in Nigeria: Policy, Practice and Potentials

This study examines the outreach performance of microfinance institutions (MFIs) in Nigeria, based on a survey of ten major MFIs. The findings indicate that the operations of MFIs have grown phenomenally in the last ten years, driven lagely by expanding informal sector activities and the reluctance of banks to fund the emerging micro enterprises. The financial services provided by the MFIs have neither been given any publicity nor captured explicitly in the official

financial statistics. The study also reveals that the sub sector faces a number of challenges which have been addressed in this paper. They include the urgent need to approve and implement a policy framework that would regulate and standardize MFI operations; accessing medium to long term sustainable commercial sources of fund, such as SMIEIES and DFI funds and increased mobilization of savings; and shifting a good proportion of credit portfolio to the promotion of real sector activities, especially in agricultural and manufacturing.

Juan Monterrey (2004) socioeconomic characteristics as incentives for Financial Reporting

This paper analyzes the importance of such incentives across 17 Spanish regions (Autonomous Communities). Our results suggest that differences in the socioeconomic level across regions – captured by a proxy for the level of education, culture and wealth of each Autonomous Community– induce differences in level of quality demanded for accounting disclosure. In sum, the socioeconomic level shows a positive and significant relationship with the degree of quality of financial disclosures in each region, as it induces better practices, and thus, a lower degree of manipulation of accounting information. The evidence presented here is robust after controlling for differences in size, ownership structure, profitability, industry weights and growth across regions, as well as for the endogeneity of the socioeconomic level and the effects of alternative conditional variables.

Samuel Sejjaaka (2003) Corporate Mandatory Disclosure by Financial Institutions in Uganda

This paper reports the results of a study on corporate mandatory disclosure in Uganda. It focuses on corporate mandatory disclosure in the financial sector, which is defined to include banks and insurance companies. The findings show that there is a significant correlation between relative mandatory scores (RMS) for disclosure by financial institutions and auditor type (Big- four versus non- Big- four independent audit firms), MNC status, size and number of years in operation (age). The relationship between RMS and leverage, return on equity, and liquidity is found not to be significant. When the predictors are regressed against the dependent variable, it is found that auditor type and firm age are the best predictors of disclosure at the 0.01 level of significance. The overall level of disclosure in the sector is also found to be extremely poor regardless of auditor type and this may be related to a weak regulatory environment.

Giacomo Boesso (2002) Forms **of Voluntary Disclosure: Recommendations and Business Practices in Europe and U.S.**

This paper focuses on how and why the main accounting organizations and research centers have attempted to help managerial decisions by encouraging voluntary disclosure of private and non-financial information. The fourth section also proposes a different framework with the intention of improving the release of performance measures how and why the main accounting organizations and research centers have attempted to help managerial decisions by encouraging voluntary disclosure of private and non-financial information. The fourth section also proposes a different framework with the intention of improving the release of performance measures.

Joselito Gallardo and Philippines (2001) A Framework for Regulating Microfinance Institutions: The experience in Ghana

The paper sought to provide a framework for addressing regulatory issues which impact the operations and the institutional development of MFIs. The two countries selected for this field testing and assessment were Ghana and the Philippines,. The tiered regulatory approach has clearly benefited the development of sustainable microfinance in the Philippines and Ghana, by clearly identifying pathways for non-government organizations (NGOs) and semi -formal MFIs to become legitimate institutions under the regulatory framework with greater ability to access financial resources from commercial markets. Among the risks that a graduated and tiered regulatory framework might present is that of regulatory arbitrage, whereby organizers of a financial institution seeking a license might choose to be constituted under an institutional format which is subject to least possible external regulation and supervision, as well as the lowest possible amount of capitalization at entry. Regulatory arbitrage does not appear to have been experienced by the Philippines or Ghana with respect to the MFIs obtaining status as licensed specialized banks

Hans Dieter Seibel (2001) Mainstreaming Informal Financial Institutions

This study focuses on establishment of IFIs/MFIs and NGOs. Informal financial institutions (IFIs), among them the ubiquitous rotating savings and credit associations, are of ancient origin. Owned and self-managed by local people, poor and non-poor, they are self-help organizations which mobilize their own resources, cover their costs and finance their growth from their profits. Are they best left alone, or should they be helped to upgrade their operations and integrate into the wider financial market? Under conducive policy conditions, some have spontaneously taken

the opportunity of evolving into semiformal or formal microfinance institutions (MFIs). This has usually yielded great benefits in terms of financial deepening, sustainability and outreach. Donors may build on these indigenous foundations and provide support for various options of institutional development, among them: incentives-driven mainstreaming through networking; encouraging the establishment of new IFIs in areas devoid of financial services; linking IFIs/MFIs to banks; strengthening NGOs as promoters of good practices; and, in a no repressive policy environment, promoting appropriate legal forms, prudential regulation and delegated supervision.

Ron Kasznik (1996) Financial Reporting Discretion and Corporate Voluntary Disclosure: Evidence from the Software Industry

This paper studies the effects of new accounting standards that limit the amount of financial reporting discretion on corporate voluntary disclosure policies. Specifically, it tests the prediction that the decrease in management's discretion with respect to revenue recognition, following the issuance of Statement of Position (SOP) 91-1 in 1992, affected the extent to which managers of software companies voluntarily disclose information outside the financial statements. Consistent with the predictions, the empirical evidence indicates that, relative to a matched control group of non-aggressive reporting firms, managers of aggressive reporting firms reduced the extent to which they issue earnings forecasts, and increased the frequency in which they modify their cash payout policy and disclose non- financial information.

NEED OF THE STUDY

India is a developing country. Where people have low income and microfinance is institution is an organization that offers financial services to the low income population. Almost all gives loan to their members and many offers insurance deposits and other services. In India, microfinance is an unorganized sector. Very generally microfinance institutes can be divided in to non-bank and bank MFIs. Within these two divisions, however are numerous types, including cooperative societies, commercial banks, Non-governmental organization (NGOs) and international NGOs (INGOs). MFIs also prepare financial statements to know their financial performance. Due to unorganized sector MFIs is facing many problems while financial reporting. There is also no uniform format of financial reporting for MFIs. However, none of studies in Indian context, examines these issues being an important area it needs to be investigate**.**

OBJECTIVES OF THE STUDY

The study will be conducted to achieve the following objectives:

- To study the rules, regulations and laws regarding financial reporting practices for MFIs in India.
- To assess the issues and problems faced by MFIs in financial reporting.
- To examine and analyze the differences between financial reporting practices of listed and non- listed MFIs in India.
- To suggest appropriate guidelines for financial reporting to MFIs.

HYPOTHESIS

Ho: There is no significant difference between financial reporting practices of listed and non-listed MFIs in India.

The other hypothesis may also be formed by the researcher during the study as per the requirement.

RESEARCH METHODOLOGY

SAMPLE SIZE:

S. No.	Name of State	No. of Companies
1.	Andhra Pradesh	3 (out of 3, 1 is listed in BSE)
2.	Assam	2 (non- listed)
3.	Delhi	2 (non-listed)
4.	Karnataka	1 (non-listed)
5.	Kerala	2 (non-listed)
6.	Mumbai	1 (non-listed)
7.	Orissa	3 (non- listed)
8.	Rajasthan	1 (non-listed)
9.	Tamilnadu	5 (non-listed)
10.	Uttar Pradesh	3 (out of 3, 1 is listed in BSE)
11.	West Bengal	1 (non-listed)
	Total companies	24

SELECTION CRITERIA:

Sample size will be selected on the basis of year of incorporation, Net Worth of the companies, and commencement of microfinance activities by the institution. Companies which are incorporated and started micro finance operation before financial year 2007-08 and Net Worth was more than ₹ 2 million in the financial year 2007-08 will be selected.

SOURCE OF DATA

For the purpose of study researcher will use Primary data as well as secondary data. Description is as follows:

Primary Sources: For Primary data, structured interviews will be taken from 50 respondents'. (Professionals and management dealing with MFIs and from the selected companies.)

Secondary Sources: Secondary sources comprise of published Annual Reports either in the form of soft or hard of respective companies, various reputed Journals and Magazines, Periodicals and Newspapers etc.

COLLECTION OF DATA

Data will be collected (from the financial year 2007-08 to 2011-12) from :

- Micro finance institutions
- Internet
- Annual reports of the MFIs.
- Other published sources like books, magazines etc.

TOOLS FOR ANALYSIS

Statistical Tools

For the data analysis various statistical tools like Correlation, Regression and Test of Significance will be used and also the statistical software like MS Excel and SPSS etc. will be used.

In addition to above stated statistical tools the researcher may adopt few other tools during the course of study.

OBJECTIVEWISE RESEARCH METHODOLOGY

S. No	Objectives	Research Methodology
1	To study the rules, regulations and laws regarding financial reporting practices for MFIs in India.	To achieve this objective research will use different books, journals, magazines and websites related to MFIs and other relevant literature.
2	To assess the issues and problems faced by MFIs in financial reporting.	To examine these issues and problems researcher will use check list, content analysis and interview.
3	To examine and analyze the differences between financial reporting practices of listed and non-listed MFIs in India.	To achieve this objective researcher will use hypothesis testing such as t-test, F-test after Quantity and Quality analysis.
4	To suggest appropriate guidelines for financial reporting to MFIs.	On the basis of analysis of data, researcher will provide appropriate guidelines for financial reporting to MFIs.

PROPOSED PLAN

CHAPTER: 1 Introduction.

CHAPTER: 2 Review of literature.

CHAPTER: 3 Profile of selected MFIs.

CHAPTER: 3 legal issues regarding financial reporting practices of MFIs**.**

CHAPTER: 4 Issues and problems facing by MFIs.

CHAPTER: 5 Comparative study of financial reporting practices of listed and non listed companies.

CHAPTER: 6 Findings and Suggestions.

CHAPTER: 7 Conclusions.

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